VZCZCXRO7865
PP RUEHLMC
DE RUEHLP #1154/01 1401705
ZNY CCCCC ZZH
P 191705Z MAY 08
FM AMEMBASSY LA PAZ
TO RUEHC/SECSTATE WASHDC PRIORITY 7518
INFO RUEHAC/AMEMBASSY ASUNCION 7970
RUEHBO/AMEMBASSY BOGOTA 5301
RUEHBR/AMEMBASSY BRASILIA 9238
RUEHBU/AMEMBASSY BUENOS AIRES 6464
RUEHCV/AMEMBASSY CARACAS 3602
RUEHGE/AMEMBASSY GEORGETOWN 0719
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RUEHMD/AMEMBASSY MADRID 4044
RUEHMN/AMEMBASSY MONTEVIDEO 5483
RUEHPO/AMEMBASSY PARAMARIBO 0399
RUEHQT/AMEMBASSY QUITO 6226
RUEHSG/AMEMBASSY SANTIAGO 0918
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RUEKJCS/SECDEF WASHINGTON DC
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RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEHUB/USINT HAVANA 1138
RUEHLMC/MILLENNIUM CHALLENGE CORP

C O N F I D E N T I A L SECTION 01 OF 04 LA PAZ 001154

SIPDIS

E.O. 12958: DECL: 05/15/2018
TAGS: ECON PGOV AGR FAO FAS PREL PINR EAGR EAID BO
SUBJECT: SANTA CRUZ BOLIVIA: SECOND CITY'S ECONOMY NOT
QUITE SO DYNAMIC

REF: A. SAO PAULO 199
¶B. 07 LA PAZ 2104
¶C. LA PAZ 638
¶D. LA PAZ 670
¶E. LA PAZ 1006

Classified By: ADCM Mike Hammer for reasons 1.4 (b) and (d).

Comment

¶1. (SBU) Under the spotlight surrounding the autonomy votes, the Department of Santa Cruz is often portrayed as wealthy and white, and the movement for autonomy is simplistically characterized as a struggle over resources. While there is some truth in these generalizations, none of them adequately capture what is happening in the department: Santa Cruz is a poor state in a poorer nation. Moreover, its economy is not as dynamic or as diverse as advertised; in fact, economic growth in La Paz has been greater since 2001. While control over resources is clearly an important part of greater departmental autonomy, it is not the driving force -- differences with Evo Morales over the overall philosophical approach to economic policy is much more important. Economically speaking, Crucenos (as the people from Santa Cruz are known) have a more market oriented vision for their economy. They see the state-driven approach being pushed by the Morales administration as both a threat to their relative economic prosperity and their future prospects for growth. End Summary.

A Poor State in a Poorer Country

¶2. (SBU) Bolivia is the poorest country in South America and Santa Cruz is only slightly better off. In 2006, Bolivians earned an average of US $1,152 per person. In "wealthy" Santa Cruz, this figure came in slightly higher at US $1,300 per person. Moreover, according to poverty statistics from 2001, only 23 percent of Crucenos had their basic needs met (the figure falls to 16 percent nationwide).

In Bolivia, 28 percent of the population is considered in dire poverty. This figure falls to only 7 percent in Santa Cruz, but still a full 38 percent of the department's population lives in poverty (58 percent nationally). Santa Cruz has provided better for its people, but only marginally.

¶3. (SBU) From a regional perspective, the Santa Cruz economy looks less mighty than is often portrayed. The neighboring Brazilian state of Matto Grosso do Sul provides an interesting comparison (Ref. A). The two states share a railway and a gas pipeline; they are roughly equivalent in size (Santa Cruz is slightly larger); and they have similar population densities (6.66 people per square km in Santa Cruz against 6.4 in Matto Grosso do Sul). Yet, in 2005 people in Matto Grosso do Sul earned US $3,675 per year (only 11th place in Brazilian state rankings), almost three times the figure in Santa Cruz. Agriculture plays an important part of both states (21 percent in SC and 31 percent in MGS). Yet Santa Cruz's 260,167 head of cattle is dwarfed by the 20 million head found in Matto Grosso do Sul. (Note: One point of pride for Bolivia is the state of the railway line. According to Jaime Valencia, General Manager of the Eastern Railroad Company a subsidiary of Genesee & Wyoming, extensive investment since privatization has left the Bolivian portion of the line in better conditions than any other regional railroad. It is the only portion of the envisioned cross-continental railroad link through Brazil, Bolivia, Argentina and Chile that would meet the proposed standards. President Morales announced his intention to nationalize the company in 2006, but has since backed off of the threat. End

note.)

¶4. (SBU) Santa Cruz takes great pride in the development of its soy industry. Indeed, from the mid-1980s the sector has grown from producing around US $20 million to an estimated $388 million last year. Soy represents over 50 percent of agricultural production in the department (followed by sunflowers (11%) and corn (9%)) and there are now seven crushing plants, with a crushing capacity of 5,250 tons per day (t/day). Yet, in Santa Fe, Argentina the crushing capacity is 71,000 t/day (78 percent of the Argentine national capacity). Moreover, in Brazil there are 91 plants which crush over 1000 t/day. Clearly, Santa Cruz is a small time player, but with only one fourth of the soil apt for soy production in use, locals see room to grow -- if permitted by the national government.

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Not So Dynamic, Not So Diversified, and Not So White
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¶5. (SBU) The common perception in Bolivia (and in Santa Cruz in particular) is that Santa Cruz is the engine of growth for the whole economy, with growth rates that far outpace those of the highland states. The fact is that in 2006 (the most current census), Santa Cruz had 25 percent of the Bolivian population with only a modestly higher portion of GDP (30 percent). From 2001 (the previous census) to 2006, the economy in Santa Cruz grew by 14 percent, well below growth in La Paz, which grew by 22 percent. The difference cannot be explained away by differences in population growth either: the population in La Paz actually grew at a slower rate, 14 percent (2,350,466 in 2001 to 2,672,800 in 2006) versus almost 22 percent in Santa Cruz (2,029,471 in 2001 to 2,467,400 in 2006). These population changes made the differences in GDP per capita growth over the period even more stark, with growth up 4.9 percent in La Paz over the period and GDP per capita actually falling by 5.2 percent in Santa Cruz.

¶6. (SBU) Why then the perception that Santa Cruz leads the county in economic growth and prosperity? The answer can be found when the time frame examined is expanded back to 1992 (when the next most recent census was taken). From 1992 to

2001, the economy in Santa Cruz grew by a whopping 59 percent, or 6.55 percent a year (La Paz meanwhile grew only 15 percent, or 1.66 percent annually). Moreover, internal immigrants flooded into the region and the population grew by almost 50 percent (La Paz grew by 24 percent). Even with the dramatic rise in population (from 1,364,389 in 1992 to 2,029,471 in 2001), the economy in Santa Cruz was able to increase per capita GDP by almost 7 percent (GDP per capita fell by 6.5 percent in La Paz over the period). This was the era of gas expansion: pipelines were built, wells were drilled, and foreign investment poured into the region. However, it is not the Santa Cruz of today, and much of the push toward greater autonomy is likely linked to memories of those halcyon days and the freedom to participate fully and openly in the world economy.

¶7. (SBU) Today, the Santa Cruz economy depends heavily on agriculture (21 percent) and services (53 percent). While some see a modern economy with a diversified base, this is really not the case. Manufacturing represents some 17 percent of output, but it is heavily skewed toward the processing of agricultural products. Sixty-three percent of manufacturing in Santa Cruz is dedicated towards food and drink processing and an additional 23 percent of the total comes from the refineries recently taken over by the state from Petrobras. Only around nine percent of Santa Cruz manufacturing could be (generously) considered light manufacturing (apart from agricultural processing). In other words, there isn't much of a manufacturing base which could

be built up to absorb more labor and/or serve as a foundation on which to build a more sophisticated manufacturing sector.

¶8. (SBU) Not only is the common perception of the Santa Cruz economy flawed, its racial mixture is also misconstrued. According to an analysis done on the 2001 census data, there are 447,955 indigenous residents in the department, or 22 percent of the total population. While this pales in comparison to the over 65 percent in the three altiplano departments (La Paz (60 percent), Oruro (61 percent), and Potosi (81 percent), it does mean that Santa Cruz department has the fourth largest indigenous population in Bolivia. Moreover, a full 35 percent of rural Santa Cruz is indigenous. (Note: Estimates of the indigenous population of Bolivia range widely (up to 80 percent) depending on the methods and timing of the surveys (Ref. B). End note.)

¶9. (SBU) As to the assertion that the agricultural sector is dominated by a handful of white oligarchs, the reality is considerably more complex. During the initial stages of the ban on cooking oil exports (Ref. C,D,E), it was widely reported that around 200,000 jobs depended upon the soy industry. According to the Association of Oil Seed Producers (ANAPO), there are 46,000 field workers employed in soy production and some 25,000 dependent on the product's transportation. Moreover, ANAPO claims that 77 percent of soy producers farm on less than 50 hectares of land (or 10,780 of a total 14,000 producers), while only 2 percent farm areas larger than 1,000 hectares. Taking a rough estimate that the average small farm is 25 hectares, that would mean that some 270,000 hectares are being farmed by small landholders. Considering that around one million hectares are dedicated to soy production, these rough calculations would indicate that around one quarter of all soy production comes from small farmers in Santa Cruz. Not quite the image promulgated by the Morales administration. Additionally, ANAPO claims that 31 percent of the soy crop is produced by Brazilians, 22 percent by Mennonite communities, 6 percent by Japanese, and 35 percent by "Bolivian nationals".

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Not a Fight Over Resources, Rather Over Economic Direction
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¶10. (SBU) Economically speaking, the struggle for greater regional autonomy is frequently characterized as a fight for control over natural resources. While true that asserting local control over gas revenue is vitally important to the department, a regional pride and a desire to pursue a liberal, market oriented economic agenda outside of the control and interference of the central government is behind the push for autonomy.

¶11. (C) As discussed, Santa Cruz went through tremendous growth in the 1990s and grew from a sleepy backwater to a national leader. The economic policies that made this growth possible are threatened by the statist policies of the Morales administration. Crucenos see, and even acutely feel, their opportunity to be a regional economic (and gas) hub slipping through their fingers; the results of political chaos and economic policies can be seen most tangibly in their backyard. Only 20 percent of Bolivia's gas is produced in Santa Cruz, but all of the international companies are headquartered there. Moreover, in 2005 a full 69% of foreign direct investment (FDI) for the department went into the hydrocarbon sector. Therefore, perhaps no other region feels the contraction of the industry more acutely than Santa Cruz (in the department of Tarija, where the majority of gas is produced, the impact of diminishing investment will not be fully felt until actual production (and the taxes it generates) begins to drop in the future). Indeed, FDI to the department decreased 42 percent from 2004 to 2005, and has

likely fallen even further in the last two years. (Note: Overall investment in the hydrocarbon sector has steadily decreased this decade, from $442 million in 2000, to an estimated $150 million in 2007. Investment in the sector peaked in 1998 at $604 million. End note.)

¶12. (SBU) Santa Cruz also depends more heavily than the rest of the country on trade. Around 25 percent of all exports originate in the department and from 2000 to 2006, exports doubled from less than $500 million to almost $1 billion. The recent ban on cooking oil exports only drove home the belief that Santa Cruz needs protection from the arbitrary actions of the central government, which threaten their very livelihood. The ability to run your own business and prosper from it is much more central to autonomy than control over natural resources.

¶13. (SBU) Despite the importance of exports to Santa Cruz (and the ability to export freely to the autonomy movement), a closer look at export statistics surprisingly further supports the argument that the department is not as dynamic or diversified (as compared to the rest of the country) as is commonly assumed. Removing hydrocarbons, exports from Santa Cruz grew by only 43 percent from 2000 to 2006 ($423 million to $605 million); in La Paz non-hydrocarbon exports almost doubled over the same period (from $153 million to a not insignificant $305 million (15 percent of total non-hydrocarbon exports). Moreover, the bulk of these exports came from light manufacturing, a sector nearly absent in Santa Cruz and important in building an economy more independent from natural resources. (Note: Many of these industries depend on ATPDEA preferences. End note)

Comment

¶14. (C) Santa Cruz remains the single biggest departmental economy; yet, it is not as rich, dynamic, or white as is commonly assumed. However, despite what the numbers show, there is a palpable feeling of prosperity and dynamism in the city of Santa Cruz. Perhaps because of this, the numbers are surprising. Drug proceeds may help explain some of the discrepancy. Many in Santa Cruz like to compare the growth in population and the economy to the Bolivian version of the American dream. The challenges of absorbing such rapid

internal migration coupled with a national government in La Paz advocating state control of the economy threaten to turn the dream into a memory.
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